

SUBSTANCE TAXED ONLY ONCE
RAISE WAGES, CUT CARBON WHITE PAPER SERIES
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EXECUTIVE SUMMARY

The Raise Wages, Cut Carbon Act of 2009 contains several provisions to ensure that the proposed revenue-neutral carbon tax is passed through transparently. We welcome expert testimony on any other areas of commerce that would need to be protected from double-taxation under the legislation.

PRINCIPLE OF SINGLE TAXATION

The intent of the revenue-neutral carbon tax is to include the carbon value in the sale price of a fossil fuel. In order to achieve this aim and not distort the fossil fuel trade market, the tax will be applied only at the first point of sale. Once a fuel is taxed, subsequent traders only need to affirm that the tax was paid by a prior handler.

Section 4692 (d) states:

“(d) **SUBSTANCE TAXED ONLY ONCE.**—No tax shall be imposed by subsection (a) with respect to a taxable carbon substance if the person who would be liable for such tax establishes that a prior tax imposed by such section has been imposed with respect to such substance.

MAKING OTHER TAXABLE SUBSTANCES

Industries that process or convert fossil fuels from one taxable form to another are guarded from double taxation. So long as a tax is imposed on the feedstock materials, no tax will be imposed on any manufactured fossil fuel.

Section 4693 (b) states:

“(b) **PREVIOUSLY TAXED CARBON SUBSTANCES USED TO MAKE ANOTHER TAXABLE CARBON SUBSTANCE.**—Under regulations prescribed by the Secretary, if—

“(1) a tax under section 4692 was paid with respect to any taxable carbon substance, and

“(2) such substance was used by any person in the manufacture or production of any other substance which is a taxable carbon substance, then an amount equal to the tax so paid shall be allowed as a credit or refund (without interest) to such person in the same manner as if it were an overpayment of tax imposed by section 4692. In any case to which this subsection applies, the amount of any such credit or refund shall not exceed the amount of tax imposed by section 4692 on the other taxable fuel manufactured or produced

(or which would have been imposed by such subsection on such other fuel but for section 4692(d)).

INVENTORY EXCHANGES

Inventory exchanges are a common way for petroleum refineries to obtain the petroleum products that they are most efficient at processing. This process will be protected from the burden of double taxation; refineries will be able to exchange inventories without the burden of the carbon tax, and the tax will be assessed on the fuel when it is sold to the market.

Section 4694 (c) states:

“(c) SPECIAL RULES FOR INVENTORY EXCHANGES.—

“(1) IN GENERAL.—Except as provided in paragraph (2), in any case in which a manufacturer, producer, or importer of a taxable carbon substance exchanges such substance as part of an inventory exchange with another person—

“(A) such exchange shall not be treated as a sale, and

“(B) such other person shall, for purposes of section 4692, be treated as the manufacturer, producer, or importer of such substance.

“(2) REGISTRATION REQUIREMENT.—Paragraph (1) shall not apply to any inventory exchange unless—

“(A) both parties are registered with the Secretary as manufacturers, producers, or importers of taxable carbon substances, and

“(B) the person receiving the taxable carbon substance has, at such time as the Secretary may prescribe, notified the manufacturer, producer, or importer of such person’s registration number and the internal revenue district in which such person is registered.

“(3) INVENTORY EXCHANGE.—For purposes of this subsection, the term ‘inventory exchange’ means any exchange in which 2 persons exchange property which is, in the hands of each person, property described in section 1221(a)(1).